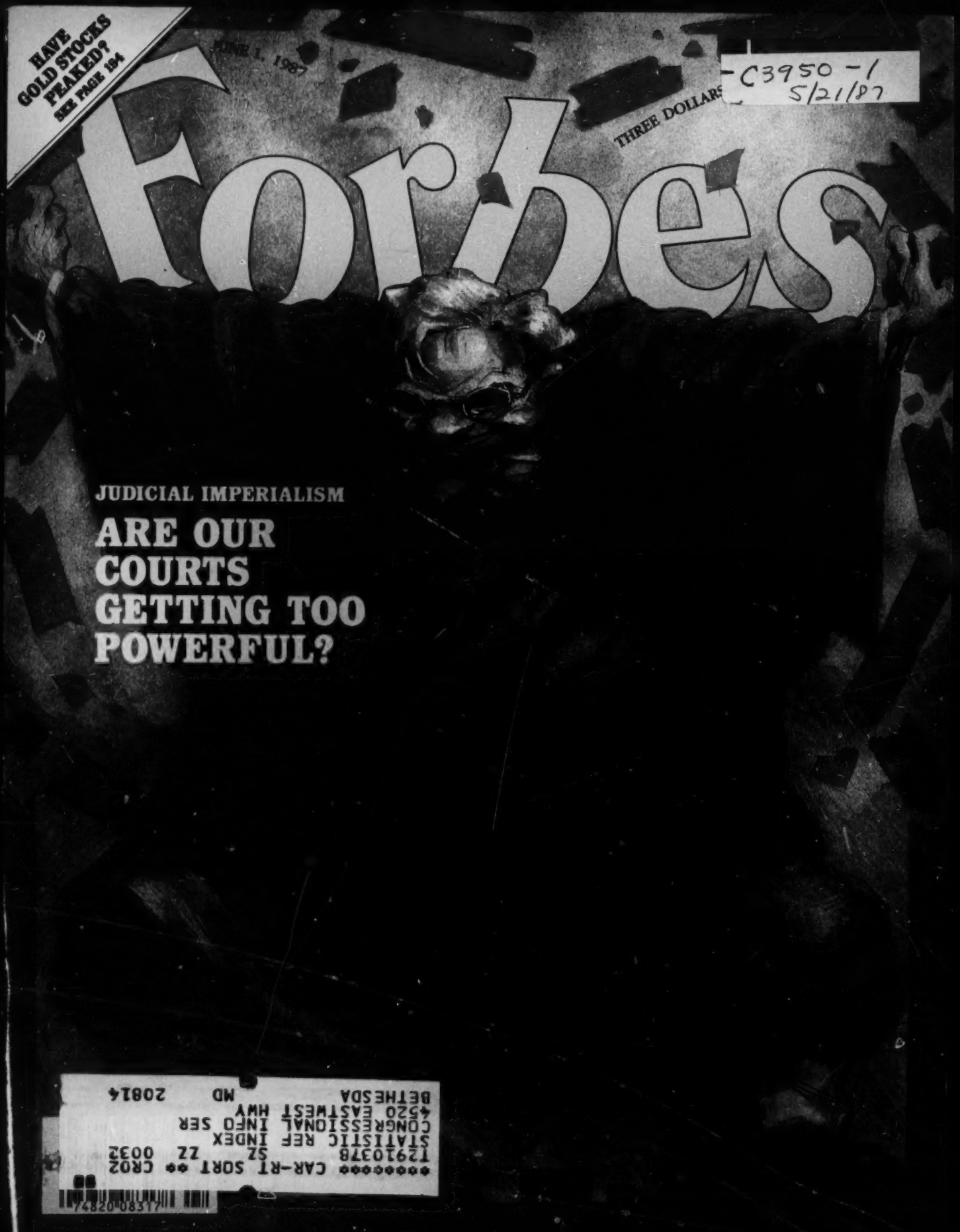

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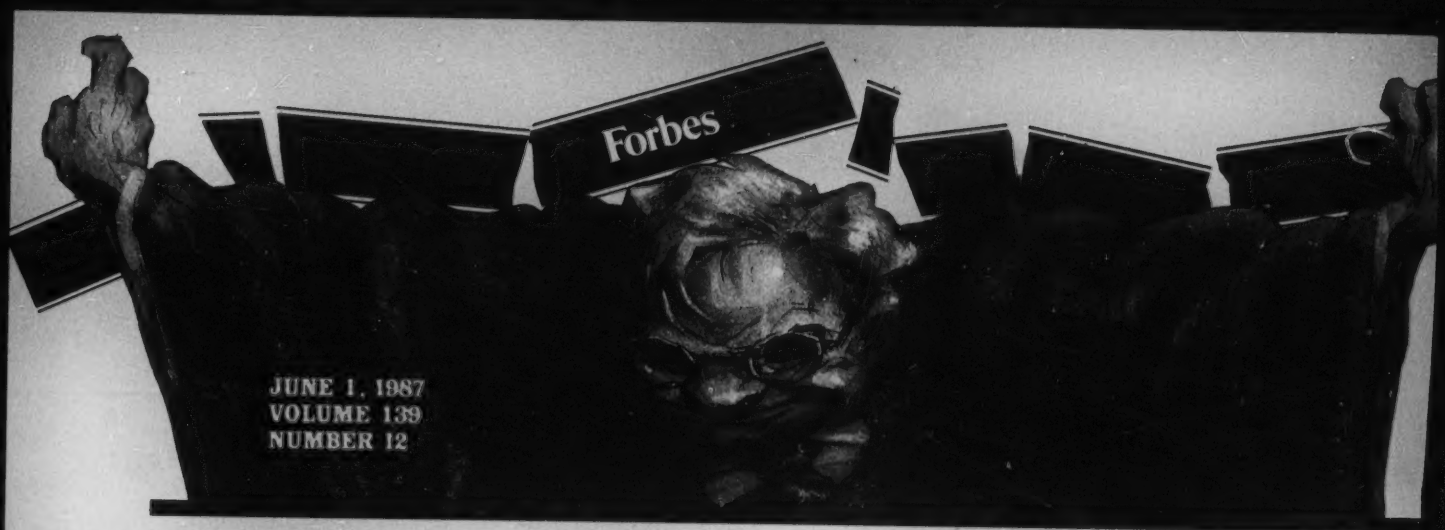

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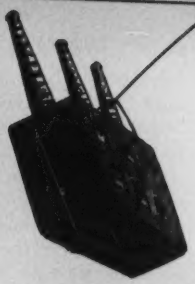

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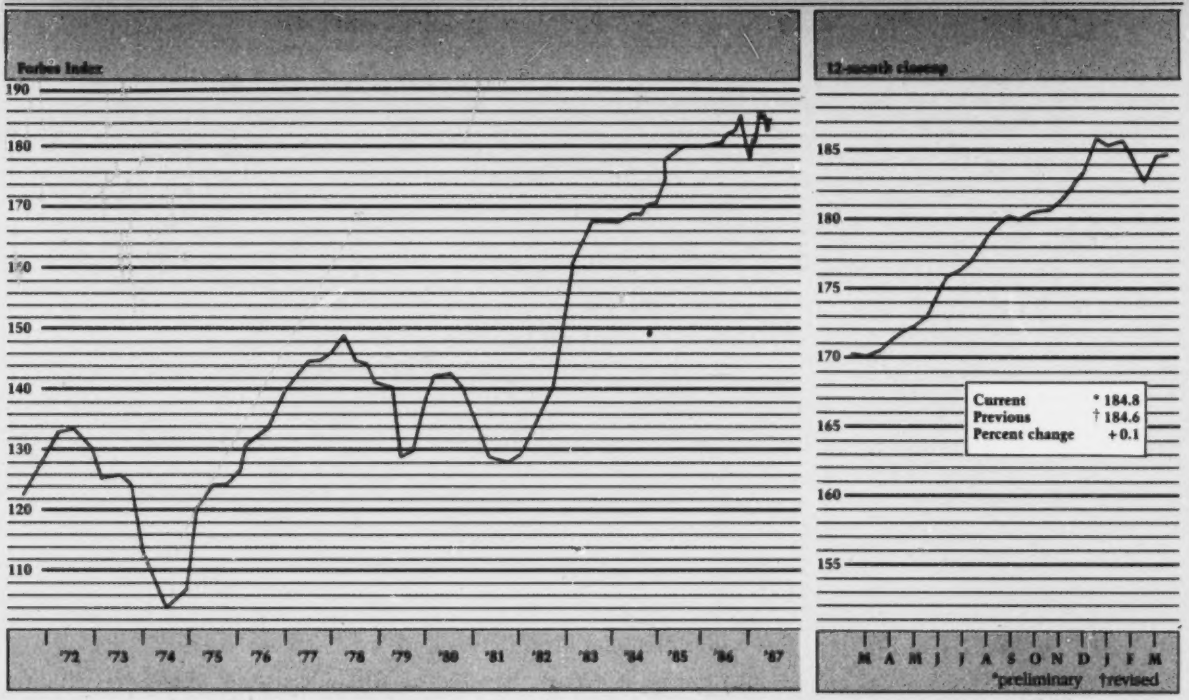
The Forbes Index



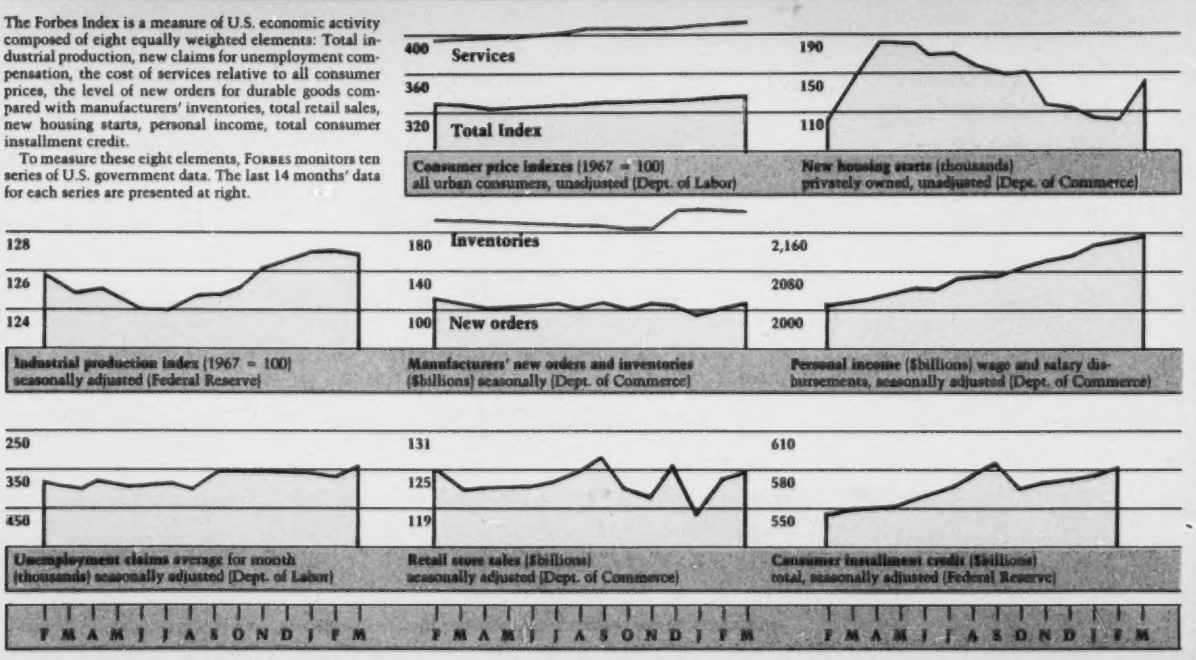
Ready, set. . . . The Forbes Index inched up 0.1%, to 184.8 (1967 = 100). Through the first quarter of this year, the Index rose at an annual rate of only 0.7%, vs. a 3.8% annual rate in the first quarter of 1986.

But there are signs of a pickup. The civilian unemployment rate, at 6.3% in March, is at its lowest level in seven years. That figure isn't used in the Index, but a trailing six-month total of initial unemployment claims is. The six-month figure, which measures long-term trends, has moved lower in each of the last eight months. In addition, the ratio of manufacturers' new orders for durable goods (three months through March) to durable goods inventories (March) increased 0.4%, while personal income went up 0.3% in March.

The Forbes Index Components

The Forbes Index is a measure of U.S. economic activity composed of eight equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total retail sales, new housing starts, personal income, total consumer installment credit.

To measure these eight elements, FORBES monitors ten series of U.S. government data. The last 14 months' data for each series are presented at right.


400
Services
360
320
Total Index
Consumer price indexes (1967 = 100) all urban consumers, unadjusted (Dept. of Labor)
190
150
110
New housing starts (thousands) privately owned, unadjusted (Dept. of Commerce)
128
126
124
Industrial production index (1967 = 100) seasonally adjusted (Federal Reserve)
180
Inventories
140
100
New orders
Manufacturers' new orders and inventories ($billions) seasonally (Dept. of Commerce)
2,160
2080
2000
Personal income ($billions) wage and salary disbursements, seasonally adjusted (Dept. of Commerce)
250
350
450
Unemployment claims average for month (thousands) seasonally adjusted (Dept. of Labor)
131
125
119
Retail store sales ($billions) seasonally adjusted (Dept. of Commerce)
610
580
550
Consumer installment credit ($billions) total, seasonally adjusted (Federal Reserve)
F M A M J J A S O N D J F M
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Wall Street has been quick to spot the big bucks in taking out the country's hazardous garbage. Some of the new issues smell pretty good. Others smell pretty ripe.

Cleaning up

By Burr Leonard

DEPENDING ON HOW you measure it, cleaning up the country's hazardous wastes is now a $35 billion industry. Only 5% or so of this unpleasant work is farmed out to the rapidly growing number of publicly owned hazardous waste companies. But their share is increasing, making a number of cleanup entrepreneurs—and their shareholders—very rich. According to Robert Brandl of hazardous waste consultants Roy F. Weston, Inc. in West Chester, Pa.: "We're just now touching the tip of the iceberg."

Brandl's firm is a good example of the new wealth in garbage. Founded 30 years ago, it went public last July at $8.50 a share (split-adjusted) and now trades at 17. That values $98.7 million (sales) Weston at $107 million.

As the table opposite shows, Weston is not alone. Canonie Environmental Services Corp. of Porter, Ind. went public last September at $15 and now sells at 26½. Norwood, Mass.' Groundwater Technology has also seen its market value nearly double since going public last July, to $144 million.

How about Miami, Fla.'s $5 million (sales) Enviropact, Inc.? It sold its first stock to the public last September at $3.25. The shares now trade at 20½—8 times revenues, 137 times earnings.

Propelling these gains is a giant helping hand from Washington, which recently authorized $8.5 billion for Superfund's cleanup of old sites. More important for the future, the new toxic waste cleanup standards set by the government in 1984 require a level of technical expertise and manpower lacking on the part of most manufacturers that generate toxic waste.

"Each time a regulation is enacted," grins Robert Fletcher, president of high-flying Enviropact, "it creates a new market opportunity for us."

Caveat emptor: Toxic cleanup is a complex industry, yet the brokers are retailing the new issues like so many potatoes in a sack.

This worries Thomas Levis, the managing director at New York-based Investors Co., a brokerage firm that specializes in environmental stocks. "Since the passage of [the government cleanup] laws, you have every small operation that's in any way associated with this business going public," Levis warns. Wall Street, he adds, "is taking advantage of high earnings multiples and the public's interest in the field." It's the old story: If toxic cleanup is in fashion, Wall Street will gladly retail it.

How to separate the jewels from the trash? The hazardous waste industry is best viewed as a mix of three basic subgroups: landfill disposal and fixed-base incinerator owners, remedial on-site cleanup companies, and purveyors of consulting and analytical services. Most companies offer some combination of the three, but each service comes with its own risks and potential rewards.

Steve Leonard

A Chemical Waste Management incinerator
Clean solutions for dirty problems.

The eight publicly owned commercial landfill operators have a powerful ally: politicians determined to limit their competition. "About 80% of all solid toxic wastes are dumped on landfills, at rates between $100 and $150 per cubic yard," says analyst Stephan Schweich of Alex. Brown & Sons. But in the past five years the federal government has shut about 75 of the country's 100 commercial facilities. Shrinking supply and increasing demand are usually favorable for owners.

"People are always saying, 'Gee, landfills are out, people are going to be treating wastes now,' and so on," agrees Richard Defieux, a venture capitalist at Princeton-Montrose Partners in Princeton, N.J. "But I'd be very happy to have a permitted landfill right now, because there aren't very many of them around."

Pretax margins for per-

Opportunities in refuse

Below, a dozen toxic cleanup companies that have recently gone public, organized by specialty. But note that most companies are expanding into new areas of expertise.

Name	Sales ($mil)	Profits ($mil)	Offering date	Shares outstanding (mil)	Shares offered (mil)	Offering price	Recent price	Price/ earnings ratio	Where traded
Commercial landfill and fixed-base incinerator operators									
Chemical Waste Management[1]	$416.0	$52.0	10/86	99.9	18.9	17¼	32¼	57	NYSE
Envirosafe Services[2]	31.6	2.3	5/87	3.8	1.4	15	15⅛	25	Nasdaq
On-site cleanup services									
Groundwater Technology	35.0E	3.3E	7/86	4.0	1.0	18½	36	44	Nasdaq
Riedel Environmental Technologies	33.3	1.3	5/86	3.2	1.0	17	21½	51	Nasdaq
Canonie Environmental Services	30.0	3.9	9/86	5.5[6]	1.8[4]	15	26½	37	Nasdaq
Consulting and analytical services									
Roy F Weston	93.7	2.7	7/86	6.3[3]	1.7[4]	8½	17[5]	40	Nasdaq
Ecology & Environment	30.4	1.4	3/87	3.8	1.0	15	19⅛	38	Amex
Versar, Inc	28.4	0.8	11/86	2.4	0.9	9¾	15	53	Amex
EA Engineering, Science & Tech	12.4	0.9	10/86	2.5	1.0	10	8½	24	Nasdaq
Hunter Environmental Services	12.2	0.7E	12/86	4.9	1.1	5	9	63	Nasdaq
Enviropact, Inc	5.0	0.2	9/86	2.0	0.6	3¼	20½	137	Nasdaq
Cambridge Analytical Associates	3.8	0.5	4/86	2.7	1.2	5	3½	NA	Nasdaq

[1]81% owned by Waste Management Inc. [2]64% owned by IU International Corp. [3]Includes 3.6 million Series A common stock. [4]Series A common stock. [5]Adjusted for a 3-for-2 stock split. [6]Includes 250,000 additional common shares offered in May 1987. E: Estimated. NA: Not applicable.

manently burying toxic wastes run about 30%, twice that of a typical remedial cleanup job. This helps explain why investors are willing to pay 57 times earnings for Chemical Waste Management, which has six landfills. The bad news is that landfills close to population centers are high-profile targets for regulators, citizen groups and contingency fee lawyers. Surprise explosions of volatile wastes have eaten the paint off nearby cars.

Warns Roy F. Weston's Bob Brandl: "A lot of those landfills go back years and years, to the time when there was no criterion other than having a large hole in the ground." In April the Environmental Protection Agency slapped Browning-Ferris' Livingston, La. landfill site with a suit that could cost the company $70 million. The 2,800 violations cited in the case date back to 1980, before many wastes were routinely tracked.

Another cleanup subgroup is formed by the so-called remedial or on-site cleanup companies. These help polluters minimize or recycle toxic waste as it oozes from the industrial process. Entry barriers are lower here than in the landfill business, but the skill and equipment needed keeps newcomers at a disadvantage.

"You go and look at an [on-site, mobile] incinerator, and it doesn't take you long to realize that this is a damned difficult thing to run," says Richard Fortuna, executive director of the Hazardous Waste Treatment Council, a trade group for 60 hazardous waste companies. "It's a real skill to do it right, to do it consistently, and to make money at it."

Riedel Environmental Technologies, Canonie Environmental Services and Roy F. Weston are remedial firms specializing in treating wastes on-site with bacteria, solar energy or ozone, as well as the now more established methods such as mobile incineration, which reduces waste bulk 85% or more by burning it, and containment, which adds cement dust to the waste, and then creates a multilayered vault around the stuff.

A large submarket for the remedial firms is groundwater. Environmental Protection Agency studies over the past few years have shown that around 30% of the country's 1.4 million underground gasoline tanks have a potential to leak. This endangers many of the country's aquifers that supply about one-half of the nation's drinking water. Canonie Environmental, Groundwater Technology and Hunter Environmental Services have profited handsomely by analysis and treatment of water pollutants. Groundwater's revenues have grown an average of 78% a year over the past three years.

The risks in the remedial companies? Liability is a big one. But the availability of pollution liability insurance for any toxic cleanup company is very limited, so in essence all are in the same boat.

Another risk for the remedial companies is that treatment methods go in and out of favor, often taking smaller companies with them. "If you're just a one-facility company, you could be making 60% margins today and be shut down for three months tomorrow," says Richard Fortuna. "There's no way to control the caprices of hazardous waste enforcement."

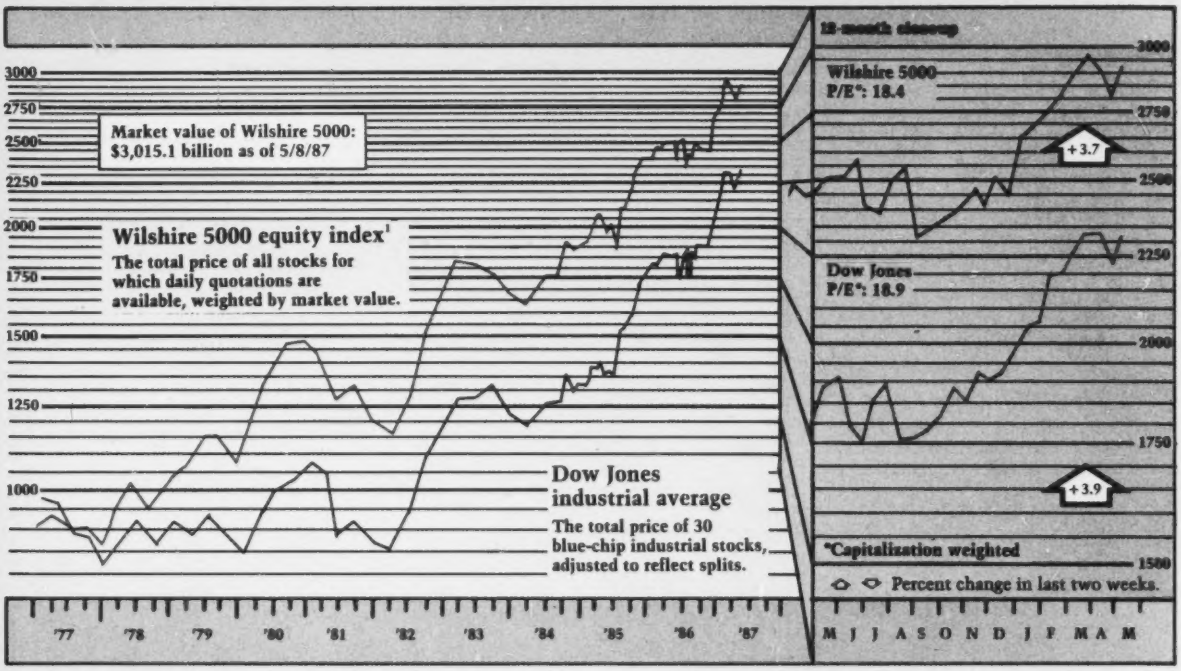
Finally, we have the cleanup business' consulting and analytical companies, which feed mainly on mushrooming government regulations. Here the liability risks are relatively low, since consulting and analytical firms do not deal directly with waste materials. But barriers to entry are even lower, and landfill operators and remedial firms are already expanding into the consultancy field. "It's hard to make any money as a consultant," says Princeton-Montrose's Defieux. "The margins are very small."

This has led at least one consulting outfit, Cambridge Analytical, to expand the other way. Its research into new technologies for the coal tar generated by utilities, as well as into treatments for other wastes, adds an innovative dimension to its consulting and testing work. Enviropact, too, is moving into remedial work. At 137 times earnings, it has to do something.

The biggest threat to investors in all this? Wall Street. As long as the cleanup story sells stocks, the underwriters will bring cleanup companies of decreasing quality to market. The bubble will burst, as will many of those inflated earnings multiples. The only question is when. ■

The Forbes/Wilshire 5000 Review

Edited by Steve Kichen



Rising corporate earnings, especially at small to medium-size firms, helped Wall Street forget its fears about interest rates and the weakness of the dollar. In the most recent two weeks stock prices rebounded sharply from the late April correction. The 3.7% gain in the Wilshire index over the last ten trading days brought this broad-based indicator to within 0.3% of where it stood four weeks ago and 3.2% of its Mar. 24 record high. Despite the price rise, the Wilshire price/earnings multiple based on latest 12-month earnings fell 5.2%, to 18.4. This was primarily the result of strong quarterly earnings reports from firms other than Dow 30 and Forbes Sales 500 companies. Earnings for these latter groups did not rise as sharply as stock prices and the average P/E multiples rose. Behind the 3.9% gains for both the Dow and the Forbes Sales 500 was growing optimism among security analysts about the prospects for 1987 earnings in several economic sectors *(see next page).*

Closeup On the Equity Markets

Performance of six leading indexes

Percent change	Wilshire 5000	Forbes 500[2]	Dow Jones industrials	NYSE Composite	Amex Market Value Index	NASDAQ Composite
in last 4 weeks	–0.3	0.0	–0.7	–0.1	–1.2	–1.8
in last 52 weeks	18.7	18.5	29.8	20.7	22.4	8.8

Stock performance based on six key investor yardsticks

Percent change	Company size		Volatility[3]		P/E multiple		Dividend yield		Growth profile[4]		Share price	
	large	small	high	low	over 25	under 5	over 7.5%	none	high	low	over $40	under $4
in last 4 weeks	–1.0	–0.7	–0.2	–0.1	–1.6	–2.2	–0.3	0.7	0.1	–0.7	–1.4	–0.5
in last 52 weeks	19.8	35.9	50.7	24.3	15.9	12.3	10.3	43.4	54.0	18.0	18.4	24.9

[1]Wilshire index reflects price performance. It differs slightly from market value of outstanding stocks because of retirements of equity since index was created. [2]Based on sales. [3]A stock's sensitivity to overall market movement. High-volatility issues have wide price fluctuations, low-volatility issues are more stable. [4]A quantitative evaluation of a stock's growth image, determined by Wilshire Associates.

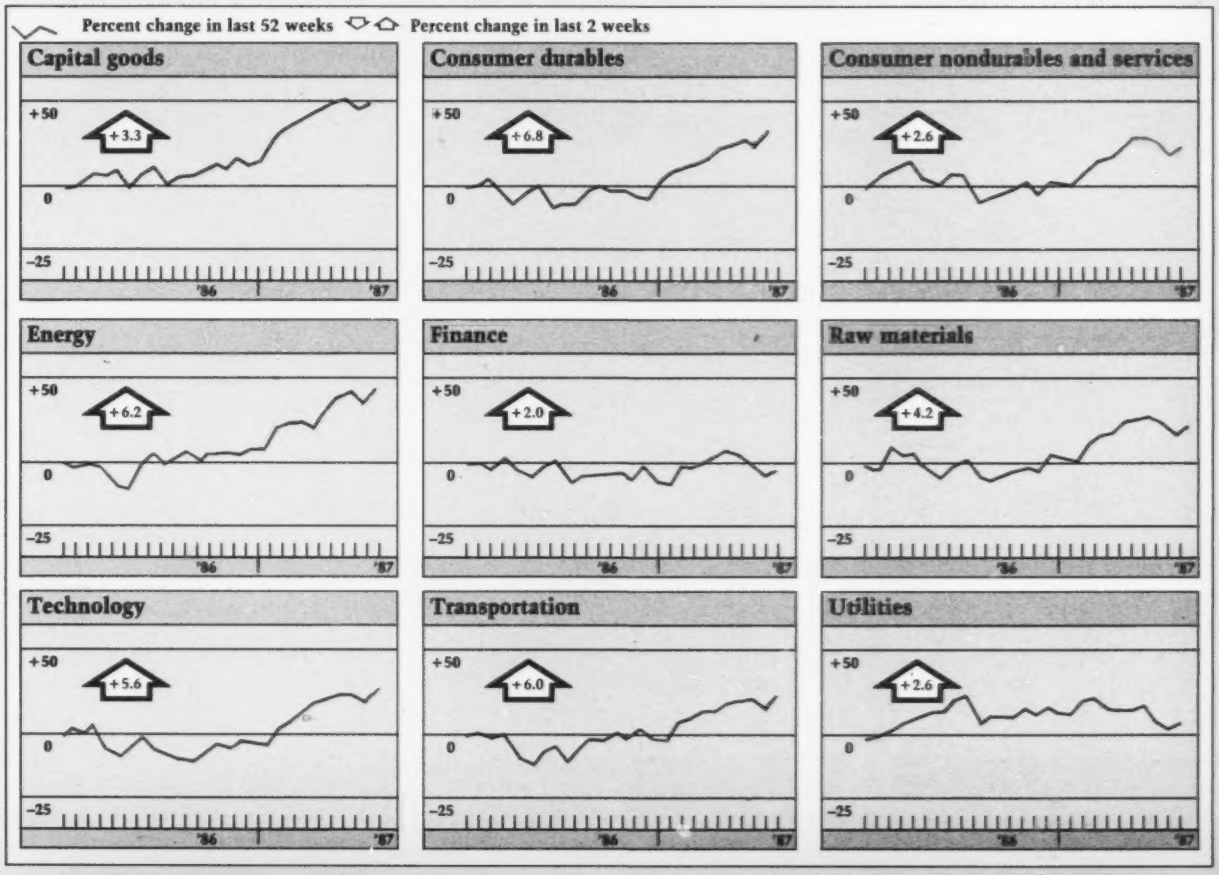
Gay French

Note: All data for periods ending 5/8/87. Prepared by Wilshire Associates, Santa Monica, Calif.

Where the Action Is

Ford is beating General Motors in profits, with $1.5 billion in the first quarter for Ford, vs. $923 million for GM. That's in spite of Ford's much smaller market share. The news pushed Ford stock to a 22.5% gain in the last two weeks and to an alltime record high of 100, more than four times what it was three years ago. The strong showing for Ford was behind the 6.8% two-week gain for the consumer durables sector. Among other consumer durable stocks registering double-digit increases were Mack Trucks and Goodyear Tire & Rubber.

Also posting strong gains were energy and transportation stocks. Oilfield service stocks were particularly strong: Baker Hughes 30.5%, and both Dresser Industries and Halliburton nearly 20%.



What the Analysts Think

Encouraging first-quarter earnings were one factor behind the rise in 1987 earnings estimates for five of nine Wilshire sectors. But there's no way of knowing when an analyst is tempted to raise an estimate merely to keep up with a rising stock price. For more on this phenomenon of the self-inflating forecast, see story on page 186.

Forecasting the Forbes Sales 500

Performance period	Average earnings per share	P/E
latest 12 months	$2.62	18.4
1987 estimates	3.48	13.9
1988 estimates	4.07	11.9

Rank based on change in estimate	Sector	Estimated 1987 EPS	Estimated 1987 P/E	% change in 1987 estimate in 2 weeks	% change in 1987 estimate in 4 weeks
1	Technology	$2.69	17.1	0.44%	-0.06%
2	Raw materials	2.34	16.6	0.23	1.22
3	Consumer durables	3.46	14.0	0.21	0.01
4	Consumer nondurables	2.44	16.7	0.21	0.09
5	Energy	2.64	18.6	0.16	0.60
6	Transportation	2.36	15.3	-0.47	-3.25
7	Finance	3.54	9.2	-0.51	-0.84
8	Capital goods	2.44	18.1	-0.79	-1.16
9	Utilities	2.74	10.1	-1.61	-1.91

Earnings projections are capitalization-weighted consensus estimates from over 2,000 security analysts. Data are compiled and updated continually by the Institutional Brokers Estimate System (IBES), a service of Lynch, Jones & Ryan, a New York-based brokerage firm.

Note: All data for periods ending 5/8/87. Prepared by Wilshire Associates, Santa Monica, Calif.; IBES, a service of Lynch, Jones & Ryan, New York.